EXECUTIVE S..CRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA		X (21 May only)		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC		X		
11	IG				
12	Compt		X (21 May only)		
13	D/OLL				
14	D/PAO				
15	VC/NIC		X		
16	NIO/ECON		X		
17	D/OGI/DI		X		
18					
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SUSPENSE ____________ Date

Remarks

FYI, Minutes of Economic Policy Council meetings for 16 and 21 May 85.

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Executive Secretary

11 Jun 85

mtg

minutes 21 May 85

MINUTES
ECONOMIC POLICY COUNCIL

May 21, 1985
4:00 p.m.
Roosevelt Room

Attendees: Messers. Baker, Brock, Sprinkel, Dam, Norton, Brown, Kingon, Porter, Egger, Cogan, Walker, Khedouri, and Gibson.

1. Minimum Funding Waivers

Mr. Porter outlined the central issue facing the Administration regarding minimum funding waivers for employers who maintain a defined benefit pension plan: whether to include as part of the proposed pension amendments a provision providing a statutory lien against an employer and in favor of plan beneficiaries when a minimum funding waiver is granted by the IRS.

The law currently authorizes the Secretary of the Treasury to waive minimum funding requirements so that companies with substantial business hardship can avoid terminating their pension plans. The funding waiver is actually a deferral since the deferred amount must be amortized with interest by increased contributions over the ensuing fifteen years.

A central issue is the effect of such funding waivers on the Pension Benefit Guaranty Corporation (PBGC). If a plan terminates with insufficient assets, the PBGC is responsible for promised benefits up to the insured limit. The amount the PBGC is called upon to pay out increases if the plan sponsor cannot repay the waived contribution when the plan terminates.

Mr. Porter reviewed the experience with waivers to date including their effect on the survival of firms, on the incentives for establishing and maintaining defined benefit pension plans, and their impact on the pension insurance system.

He also outlined four options for the Council's consideration and three central questions:

(1) Should any change in the statute merely provide authority for the IRS to impose a lien at its discretion as a condition for granting a waiver

or should the lien be automatically imposed with exceptions in rare instances?

(2) Should the presumption be that liens are required in virtually all cases with exceptions rarely granted or should the lien be imposed only when it is clear that such a provision would not disrupt or aggravate a firm's financial difficulties?

(3) Should the IRS or the PBGC have the authority for imposing liens and granting exceptions?

The Council's discussion focused on the need to constrain the granting of waivers, the criteria used by the Internal Revenue service in granting waivers, the intention of the Congress in making provision for waivers, the relationship of waivers to maintaining an effective minimum funding standard, and the effect of liens on the financial condition of corporations.

The Council also discussed the need for liens to be reasonably automatic to discourage firms from seeking waivers merely as a way of securing access to low cost funding, and the effect on the premiums for healthy companies when waivers are granted to firms that subsequently terminate their plans.

Decisions

The Council approved the following policies with respect to proposed legislation regarding minimum funding waivers:

(1) The Administration will include in its single employer pension legislation provision for a statutory lien in favor of pension beneficiaries.

(2) In granting a minimum funding waiver, the Internal Revenue Service would require as a condition the automatic imposition of a lien.

(3) The PBGC would have full authority to perfect, administer, and enforce the lien including negotiations for alternative ways to satisfy the lien through a bond or other security device.

(4) The presumption and intent of the lien provision would be that liens are required in virtually all cases with exceptions rarely granted.

(5) The Internal Revenue Service would continue to exercise the authority to grant minimum funding waivers. The IRS would also have authority to grant an exception to the requirement for a lien in rare instances such as cases where maintaining the lien would substantially risk the termination of a plan.

(6) The granting of an exception to the requirement for a lien would be subject to the concurrence of the PBGC.

(7) The IRS and the PBGC will work with the Executive Secretary of the Council in developing criteria describing the circumstances under which exceptions to the lien requirement would be granted.